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SUBJECT: JAPANESE FM VISIT: POSITIVE TONE, FEW RESULTS

REF: MOSCOW 00148

Classified By: Political Minister Counselor Susan Elliott for reasons 1
.4 (b) and (d).

11. (C) Summary: Japanese FM Okada's December 27-28 visit to Moscow continued the positive atmospherics in Russo-Japanese relations since Japan's Hatoyama-led government came to power, but produced few tangible results. The two sides established a working group on bilateral trade and investment and a commission to explore joint development projects in Afghanistan, but doubts remain whether practical interests coincide in these areas. Discussions revealed a mutual desire to resolve outstanding territorial issues, but saw neither side willing to compromise its position on the disputed islands. While Russia and Japan wish to deepen bilateral economic ties and continue to discuss further Japanese investment in Russia, their once-flourishing trade relationship has been hit hard by the global economic crisis and Russian protectionist measures. End Summary.

A Constructive Atmosphere, but Few Concrete Results

12. (C) According to MFA Third Asia Department Principal Counselor Leonid Shevchuk, Japanese FM Okada's December 27-28 visit was a chance for more concrete dialogue following President Medvedev's two meetings with Japanese PM Hatoyama in 2009. While Shevchuk said that meetings with FM Lavrov, Minister of Industry and Trade Khristenko, and Presidential Chief of Staff Naryshkin were constructive in tone, there were few substantive agreements. The Ministers did agree to set up a commission to explore joint development projects in Afghanistan, but Japanese Embassy contacts said Tokyo is unsure whether Russian proposals mesh with Japan's Afghan development goals (see reftel). As part of an intergovernmental committee on trade and economy, Okada and Khristenko agreed to establish a trade and investment subgroup, co-chaired at the Deputy Minister level, to focus on investment projects in the Russian Far East. Japanese Embassy contacts told us Japan had repeatedly requested the MFA and Regional Development Ministries to consider setting up such a group.

13. (C) A veteran Japan hand, Shevchuk commented broadly that goodwill towards Russia had increased under PM Hatoyama. He said that PM Hatoyama had a personal interest in cooperative projects with Russia and was involved in Japan-Russia projects long before becoming Prime Minister. Shevchuk also noted that PM Hatoyama's grandfather signed the 1956 peace declaration with Russia. (Note: PM Hatoyama's son is currently researching traffic and urban planning issues at Moscow State University. End Note). Shevchuk added that PM Hatoyama's personal goodwill toward Russia had not yet trickled down into his government, but that this would likely happen over time.

No progress on Territorial Issues

14. (C) Japanese Embassy contacts told us that FM Lavrov met with FM Okada on December 28 for 90 minutes almost exclusively on the disputed South Kuril Islands/Northern Territories. Both sides agreed they should seize the opportunity to make progress under current leadership and to put an end to emotional exchanges on the issue. FM Lavrov said there was political will to find an acceptable resolution and that Russia did not wish to delay. However, despite an apparent desire to find a solution, neither side indicated a willingness to compromise. Japanese Embassy contacts said they were disappointed that, when FM Okada asked for Russian acceptance of Japanese concerns on the islands, FM Lavrov replied that a resolution must be based on international law and the outcome of WWII. MFA's Shevchuk said the dialogue created a positive atmosphere for future discussions, but that they have yet to establish a level of trust in which both sides feel comfortable discussing compromise on territorial issues. Shevchuk added that while the 1956 declaration had resolved most of the outstanding issues from WWII, with the notable exception of the border issues, the lack of a formal peace treaty with Japan nevertheless hindered the development of better relations.

A Push for Investment, as Trade Falls Sharply

15. (C) Despite the impasse on territorial issues, both sides showed an interest in deepening bilateral economic relations. The MFA's Shevchuk said Russia was seeking increased Japanese investment, which he said had held up well despite

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the economic crisis. However, Japanese Embassy contacts told us that Japanese firms have shown little interest in a list of Russian investment proposals offered during PM Putin's visit to Tokyo last May. Shevchuk said that Khristenko and Okada discussed a number of projects for the Russian Far East, but that Japanese interest in the East Siberian - Pacific Ocean (ESPO) oil pipeline has waned since the Koizumi years. Japanese Embassy contacts told us Japanese companies are participating in construction on Russkiy Island, the proposed site for the APEC meetings in 2012, off the coast of Vladivostok. (NOTE: Originally from Vladivostok, Shevchuk said he found development on Russkiy island regrettable, as it was destroying a natural wonder that was protected in Soviet times by its status as a restricted military area. End Note).

16. (C) While annual bilateral trade with Japan grew dramatically from \$5 billion in 2003 to nearly \$30 billion in 2008, two-way trade for 2009 is estimated to have fallen by nearly two-thirds, to roughly \$10-12 billion, according to the Japanese Embassy. Most experts attribute the falloff in trade to lower energy prices, the global economic crisis, and the resulting drop in demand on both sides, and expect growth to resume. Shevchuk said that Sakhalin II production, along with fishery and forestry products, is likely to boost Russian exports to Japan in 2010. However, imports of Japanese new and used autos, which comprised more than half of all Russian imports from Japan, may not recover to previous levels given increased customs duties and other policies restricting imports, particularly from Asian countries. Japanese Embassy contacts said Okada brought up used car customs duties and was told they are "temporary" and may be lifted once the economy returned to "stable conditions."
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